National Audit Office

Report
by the Comptroller
and Auditor General

Department for Education

The higher education market

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Department for Education

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Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

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This report examines whether the Department for Education is maximising the extent to which market dynamics in the higher education sector support government's objectives.

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Contents

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Key facts

£9bn

up-front funding for higher education in England, including grants and tuition fee loans. Increased from £6 billion in 2007/08

85%

of up-front funding directly followed students in 2015/16, up from 23% in 2007/08

32%

of undergraduates from England consider their course value for money, down from 50% in 2012

2 million	approximate number of students currently in higher education
£50,000	average debt on graduation for a student starting a three-year degree in 2017
58%	of 15- to 18-year-olds, the typical age at which decisions on higher education are made, had not received any form of financial education that would improve their financial capability and help protect them from making poor choices
26%	of 18-year-olds from the most disadvantaged backgrounds entering higher education aged 18 or 19, up from 21% in 2011
87	providers in the top 90 institutions charged the maximum permissible tuition fee of £9,000 per year for all of their courses in 2016/17
£1.5 billion	increase in capital investment between 2011/12 and 2015/16 by English universities
2%	of students switch provider each year
55%	drop in the number of part-time students between 2011/12 and 2015/16

The convention used throughout this report is that academic years are written as 2012/13 and financial years are written as 2012-13.

Summary

1 In England, higher education covers all taught education above A-level and equivalents. Most of the 2 million higher education students are on degree courses in universities. Higher education also includes other courses such as certificates, diplomas and foundation degrees, and is also taught in colleges and alternative providers.

2 Government invests in higher education for its key contribution to creating a skilled, educated economy and society. The Department for Education's (the Department's) up-front public funding for higher education in England, in the form of grants and tuition fee loans, is now over £9 billion a year, an increase from £6 billion in 2007/08. Up-front funding per undergraduate increased in real terms over the same period, from £5,381 to £7,903 in 2016 prices.

3 Students pay for higher education with student loans, which create a legal obligation for them to make repayments based on earnings after finishing their studies. This is different from most further education courses or apprenticeships, where costs are fully met from general taxation or contributions by employers. Any unpaid student loan balance is written off after 30 years. The Department estimates that around 40–45% of the value of student loans will not be repaid.

4 In recent years, the government has increasingly delivered higher education using market mechanisms, in particular relying more on student choice and provider competition to improve quality, and value for money. Some 85% of up-front funding now directly follows student choice (up from 23% in 2007/08) via tuition fee loans, which the Department increased from £3,000 to a maximum of £9,000 in 2012 while reducing grant funding accordingly. The Department also removed student number caps from 2015/16, to increase access to more young people and allow popular providers to expand.

5 The Higher Education and Research Act 2017 introduced further market reforms. It establishes a new regulator, the Office for Students (OfS), with a remit that includes a focus on competition, student choice and outcomes. The OfS will take a more risk-based approach to monitoring provider performance, and its new regulatory framework is intended to promote increased choice and diversity. Further changes will make it quicker and simpler for new providers to enter the market, with an expectation that greater competition may mean some providers will exit.

6 In introducing these reforms, the Department set objectives to ensure that everyone with the potential to succeed, irrespective of background, can: access relevant information to make good choices; choose from a wide-range of high quality universities; and benefit from excellent teaching that helps prepare them for the future. The government's January 2017 industrial strategy green paper also set actions relevant to the sector to address skills shortages in the economy, provide higher quality careers information and advice, and test new approaches to lifelong learning.

Scope of this report

7 Our past work on delivering public services through markets has identified that government often needs to intervene to correct market failures. For example, public service users often need significant support to make good choices, such as from GPs or care workers. Higher education has a number of features that make it a particularly complex market. It is inherently difficult to choose a course before experiencing it; most students only attend higher education once and cannot learn from experience; and outcomes are uncertain and depend on the ability and commitment of each student as well as the quality of the provider.

8 This report examines the extent to which market dynamics in undergraduate higher education support government's objectives, and whether the Department intervenes effectively to correct market failures. Our assessment of value for money rests on the following key factors:

- the extent to which prospective students are able to make informed choices on whether to enter higher education, what and where to study, and understand the long-term implications of taking on debt (Part Two);
- whether prospective students from all backgrounds can access higher education (Part Two);
- whether student choice and provider competition is driving higher teaching quality and efficient course pricing (Part Three); and
- the extent to which higher education is delivering government's objectives related to skills needs in the economy (Part Three).

The Department began consulting on a new regulatory framework for higher education in October 2017. The detailed proposals in the consultation focus on the challenge of improving student choice in the market, by enhancing the information available and promoting good student outcomes, and seek to address a number of the areas covered in this report. Our findings are presented in this context.

Key findings

Supporting effective student choice and access to higher education

9 **Making an informed choice on whether to enter higher education, and what and where to study, is critical given the lifelong impact of this decision.** Graduate outcomes vary widely by subject, provider and family background, as well as other factors such as prior attainment and local labour markets. The difference in median earnings between subjects 10 years after graduation is estimated to be up to £24,000, and between providers up to £13,000. Graduates earn, on average, 42% more than non-graduates. However, graduate earnings for some providers and subjects are lower than for non-graduates, emphasising the importance of making an informed choice (paragraph 2.6).

10 **Prospective students are in a potentially vulnerable position when deciding whether to enter higher education and take on a student loan.** Higher education involves a potentially significant financial commitment, unlike other options such as apprenticeships. The average student debt, for a three-year course, on graduation is £50,000. This represents a legal financial liability, and is one of the largest financial commitments most students will make in their lives. It is likely to be second in scale only to mortgages which average £139,000 in the UK. Research in 2016 found that 58% of 15- to 18-year-olds, the typical age at which decisions on higher education are made, had not received any form of financial education that would improve their financial capability and numeracy to help protect them from making poor choices. The Financial Conduct Authority, which regulates financial service firms, identifies financial capability as one of the key drivers of vulnerability (paragraphs 2.7 and 2.8).

11 **Higher education has a more limited level of consumer protection than other complex products such as financial services.** Higher education providers must comply with general consumer law, to ensure they do not make misleading claims and that courses match their description. Student loans also have certain statuory protections, in that repayments are income-contingent and any unpaid balance is automatically written-off after a set period. However, higher education has some features in common with complex financial services, due to the complexity of the product, uncertainty over long-term outcomes, and the financial commitment of a student loan. Where financial products are complex and retail consumers may be vulnerable to making poor choices, the Financial Conduct Authority expects financial services firms it regulates to disclose clearly the risks of such products to potential customers, to minimise the risk of mis-selling or sale of unsuitable products. There are limited comparable requirements in higher education, however, despite strong financial incentives for providers to attract as many students as possible. Prospective students have very little access to independent advice (paragraphs 2.9 and 2.10).

12 The Department has improved information available to help prospective students choose their course and provider, but only one in five use it and additional support does not adequately reach those who need it most:

- The Higher Education Funding Council for England (HEFCE) now publishes key comparative data on providers and courses, including satisfaction scores, costs, and employment and earnings outcomes. Almost all users of the data find it useful, but only 20% of prospective students have used the data, dropping to 2% of prospective part-time students (paragraph 2.12).

- Careers advice in schools is an important component of making good choices, but is not well targeted. Stakeholders we interviewed felt that subjects chosen from age 13 were crucial in determining options available later on, but only 60% of 13- to 14-year-olds have access to an external careers adviser at school. Our analysis found that students who already discuss their future with teachers and parents are 40% more likely to also have access to external careers advisers than those who do not. The Department does not have an overarching strategy covering this area (paragraphs 2.13 to 2.15).

13 The proportion of young people from disadvantaged backgrounds entering higher education has increased, but participation remains much lower than for those from more advantaged backgrounds. The Department attempts to make higher education accessible to everyone by correcting market incentives for providers to prioritise certain groups. For example, providers charging maximum fees must spend a proportion of these fees on strategies to improve participation and outcomes for under-represented groups. The percentage of 18-year-olds entering higher education aged 18 or 19 from the lowest participation areas of the country (which correlates closely to lower socio-economic status) increased from 21% to 26% between 2011 and 2016. However, 59% attend from the highest participation areas. Research shows this gap is mostly explained by educational achievement at school (paragraphs 2.16 to 2.18).

14 Increased participation among disadvantaged students is weighted towards lower-ranked providers, which risks creating a two-tier system:

- Between 2011 and 2016, the lowest ranked universities saw an 18% increase in the share of students from low participation areas, compared to 9% in the highest ranked. Applications have generally shifted towards universities with stronger reputations and higher entry requirements in response to market changes, placing more financial pressure on other providers. If these trends continue, a two-tier system may develop between providers that can compete for the most high-achieving candidates and those that struggle to compete at all (paragraphs 2.20 and 2.21).

- There is also a risk of reduced choice for people who are unable to move away to study, if financial pressures cause providers to close courses or exit the market. It is estimated that around a fifth of students live at their family home while attending higher education. Students from disadvantaged backgrounds are less geographically mobile and more likely to live in their family home while studying (paragraph 2.22).

Provider incentives to reduce cost, and improve quality

15 Only 32% of students from England consider their course offers value for money, down from 50% in 2012. This figure is the lowest in the UK. Furthermore, 37% of students from England consider their course poor value. Most stakeholders we interviewed considered that these results are likely to be affected by the increased contribution English students are making towards course costs (paragraph 3.3).

16 There is no meaningful price competition in the sector to drive down prices for the benefit of the student and taxpayer. When the government introduced higher fees in 2012, it expected price competition to drive fees to an average of £7,500. In 2016, 87 of the top 90 English universities charged the maximum permissible fee of £9,000 a year for all courses. Evidence shows that students use price as a proxy measure for quality, and the providers we spoke to were concerned that lowering prices may signal poor quality. Providers also choose the purchaser in higher education, which differs from most traditional markets where the buyer chooses the product or provider. These factors result in weak incentives to reduce costs and fees (paragraphs 3.5 and 3.6).

17 Market incentives for higher education providers to compete for students on course quality are weak:

- The relationship between course quality and providers' fee income is weak. We found that, on average, a provider moving up five places in a league table gains just 0.25% of additional fee income through increased student numbers. Providers are attempting to attract students by investing more in marketing and in facilities, with capital investment in English universities increasing from £2.35 billion to £3.80 billion between 2011/12 and 2015/16. Stakeholders we spoke to were concerned that this investment would not lead to a proportionate increase in teaching quality, and was unsustainable (paragraphs 3.8 to 3.11).
- The Department has introduced its Teaching Excellence and Student Outcomes Framework to incentivise teaching quality. The Department published the first results in June 2017, based on measures including dropout rates, satisfaction scores and employment outcomes. Many stakeholders expressed concern about whether ratings meaningfully reflect teaching quality. However, most also felt that the framework will encourage providers to focus more on educational quality and outcomes (paragraph 3.12).

18 Students can do little to influence quality once on a course, despite improvements in complaints handling. In a traditional market, consumers can incentivise quality through complaints and redress where services are unsatisfactory, or can switch to another provider. The sector ombudsman considers that providers have improved their handling of complaints and feedback, with a 25% drop in student complaints referred to it since 2014. However, students are unable to drive quality through switching providers. Switching rates in higher education appear low at 2% a year. Our analysis found no correlation between switching and satisfaction scores (paragraphs 3.14 to 3.20).

19 There is not yet evidence that more providers entering and exiting the market will improve quality in the sector, and protections for students are untested. Since 2011, the government has sought to reduce barriers to entry, including allowing new providers to award their own degrees on a probationary basis. But it is unclear what value degrees will have where providers with probationary powers are not awarded full degree-awarding powers. Increased competition is likely to lead to more courses or providers closing, and there is not yet evidence that providers that struggle financially will be of any less quality than those doing well. The new regulatory framework will require each provider to have a plan approved by the OfS to mitigate disruption for students in cases of closure (paragraphs 3.21 to 3.27).

20 Government increasingly relies on the market to meet its objectives on skills and lifelong learning, but incentives to meet these priorities are weak:

- Providers' costs vary widely, in 2012 ranging from £7,000 for some subjects to £20,000 for others. The Department provides grant funding for high-cost courses, many of which it considers strategically important, but providers report that this does not fully cover their additional costs. We found that the cheaper a course is to run, the more likely a provider is to maintain offers in the face of declining applications or expand student numbers in response to more applications. The overall proportion of students taking science-related subjects has increased since 2011, but there remain significant gaps in priority areas such as engineering and technology (paragraphs 3.28 to 3.32).
- Lifelong learning in higher education institutions has fallen significantly since 2011, with a 39% drop in mature students and 55% drop in part-time entrants. Providers have a financial incentive to prioritise young, full-time students, who are typically less costly to teach and have lower dropout rates than mature and part-time students (paragraphs 3.33 to 3.35).

Conclusion on value for money

21 The Department increasingly relies on market mechanisms to deliver higher education, with 85% of the £9 billion annual funding now directly following students. Some aspects of market delivery have brought benefits: there is more choice for more capable candidates, and a higher proportion of students from disadvantaged backgrounds are entering higher education. However, only 32% of students consider their course offers value for money, and competition between providers to drive improvements on price and quality has yet to prove effective.

22 The decisions students make when entering higher education have lifelong implications for their career prospects, earnings and debt. While information available to students to support them in making these decisions has increased, students taking out loans lack the level of consumer protection available for other complex products such as financial services. Furthermore, the taxpayer will bear the cost of student debt written off, but government has limited influence on the overall size and therefore funding for the sector, or the course mix. The Department needs a more comprehensive approach to the oversight of the higher education market, and must use the proposed regulatory reforms to help address the deficiencies identified in this report, if students and the taxpayer are to secure value for money.

Recommendations

The Department should:

a **Ensure that careers advice in schools and other support reaches those that need it most.** It should capitalise on opportunities to join up careers advice and tertiary education, now that it has responsibility for both policy areas.

b **Work with the OfS to monitor the sector and identify criteria to determine whether it needs to intervene, particularly where providers are failing.** This could include clear objectives for regional provision, to avoid areas of little or no provision developing that restrict access to the disadvantaged and less mobile. It may also involve monitoring closures, and establishing step-in criteria where necessary, to protect priority subjects or the interests of students when providers close courses or leave the market.

c **Commission an independent review of the new regulatory arrangements once these have had time to bed in.** This could include the existing commitment to review the Teaching Excellence and Student Outcomes Framework, and would help it understand the extent to which the overall arrangements correct for weak market incentives to improve quality.

d **Work with the sector to understand incentives for providers to offer courses in government's priority subject areas, and address deficiencies where necessary.** It should work with other departments, such as the Department for Business, Energy & Industrial Strategy, in determining skills needs in the labour market.

The OfS should:

e **Look to learn from other regulators in making the most effective use of its new powers.** The OfS will be a market regulator, with similar challenges to regulators addressing competition and consumer issues in other sectors. The Department has set an expectation that the OfS should learn from regulatory best practice. This learning could include:

- reviewing the effectiveness of competition in the sector, with assistance from the Competition and Markets Authority as necessary;
- ways to empower students to make informed decisions, whether through direct regulation or other means; and
- understanding how to monitor potential threats to the sector and translate these into effective stress-testing and preventative action (particularly in student protection plans).

Part One

The higher education market

1.1 In England, higher education covers all taught education above A-level and equivalents. Most of the 2 million students are on degree courses, but higher education includes other courses such as certificates, diplomas and foundation degrees.

Higher education funding and student loans

1.2 Government invests in higher education for its key contribution to creating a skilled, educated economy and society. The Department for Education's (the Department's) up-front public funding for higher education teaching in England, in the form of grants and tuition fee loans, has risen significantly. It is now over £9 billion a year, up from £6 billion in 2007/08 (**Figure 1** overleaf). Up-front funding per undergraduate (before accounting for loan repayments) increased in real terms over the same period, from £5,381 to £7,903 in 2016 prices.

1.3 Students pay for higher education with student loans, which create a legal obligation for them to make repayments based on earnings after finishing their studies. This is different from most further education courses or apprenticeships, where costs are fully met from general taxation or contributions by employers. In addition to tuition fee loans, students resident in the UK for at least three years are also eligible for maintenance loans to cover living costs. The government first introduced income-contingent repayment loans in 1998. They can be considered a hybrid between a loan and a tax as, unlike a traditional loan, repayments are based on a borrower's earnings, and any unpaid balance is written off after 30 years (**Figure 2** on page 15).

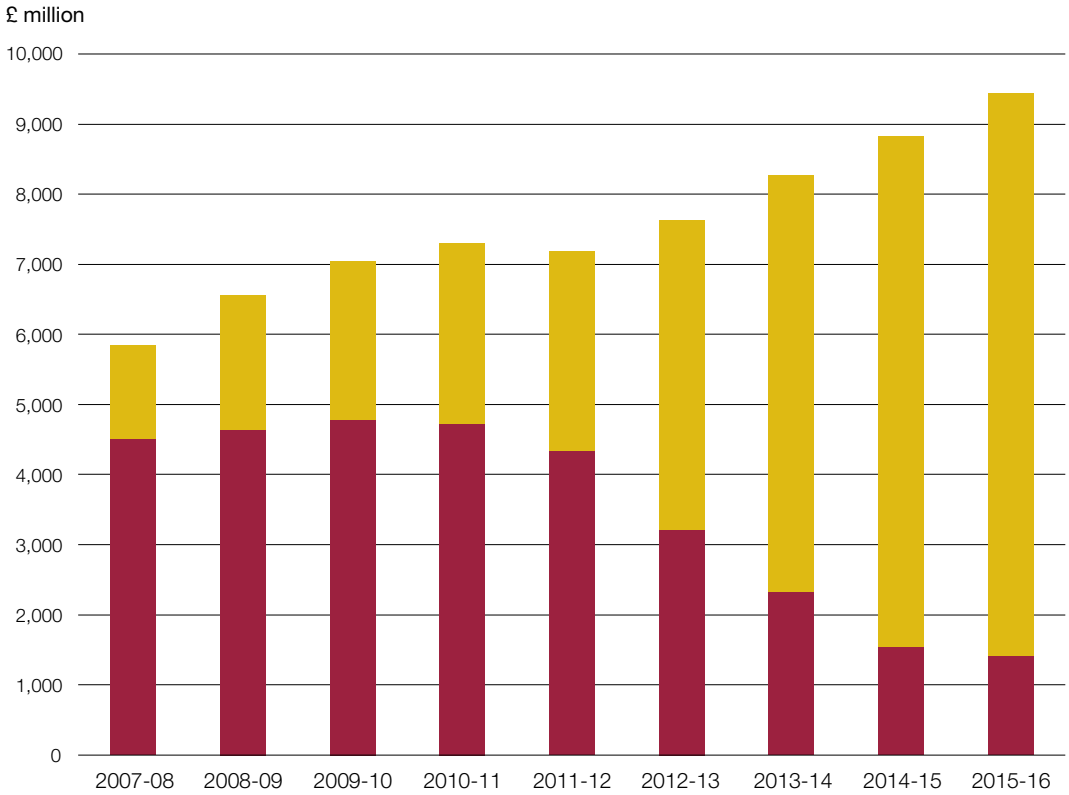
1.4 In recent years, the government has increasingly delivered higher education using market mechanisms, relying more on student choice and provider competition to improve quality and value for money. Some 85% of up-front funding now directly follows student choice (up from 23% in 2007/08) via tuition fee loans, which the Department increased from £3,000 to a maximum of £9,000 in 2012 while reducing grant funding accordingly. The Department also removed student number caps from 2015/16, to increase access to more young people and allow popular providers to expand.[1]

1.5 Taxpayer investment in higher education remains substantial, but now relies more on loan repayments and therefore on graduates' future earnings. The Department estimates that around 40-45% of the value of student loans will not be repaid. The total balance outstanding (including maintenance loans) at March 2017 was £89 billion.

1 Student number caps still apply to medicine and dentistry degrees, and courses in alternative providers.

Figure 1
Higher education funding in England (£m)

Up-front funding for higher education in England has risen over the past 10 years



	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Tuition fee loans (£m)	1,344	1,918	2,268	2,572	2,852	4,408	5,938	7,291	8,032
Teaching grants (£m)	4,510	4,632	4,782	4,723	4,341	3,214	2,331	1,548	1,418
Total (£m)	**5,854**	**6,550**	**7,050**	**7,295**	**7,193**	**7,622**	**8,269**	**8,839**	**9,450**

Note

1 Amounts are in cash terms and do not include maintenance loans for living costs.

Source: National Audit Office analysis of Student Loans Company and Higher Education Funding Council for England data

Figure 2

Income-contingent repayment student loans compared with traditional loans

Student loans can be considered a hybrid between a loan and a tax

	Income-continent repayment student loans	Traditional loans
Type of borrowers lent to	Widely available for students studying at UK higher education institutions, subject to immigration and residency requirements.	Only borrowers who are likely to be able to repay, based on various factors including credit rating.
Repayment terms	9% of earnings above a threshold (£21,000 for entrants since 2012, increasing to £25,000 from April 2018).	Fixed monthly repayment based on amount borrowed.
Interest rate	Variable, based on economic indicators and borrower's earnings. For entrants since 2012, interest is RPI+3% while studying, and between RPI and RPI+3% depending on earnings after studying.	Fixed or variable, based on economic indicators and lender's costs.
Loan term	Until balance reaches zero or after fixed period (30 years for entrants since 2012) at which point unpaid balance, including interest accrued, is written off.	Fixed repayment term, after which full loan plus interest needs to be repaid.

Note

1 RPI stands for Retail Price Index, a measure of inflation.

Source: National Audit Office analysis

Higher education providers

1.6 Most students in England study at one of the 108 English universities. Universities receive grant funding directly from government, but are independent, autonomous institutions.

1.7 The sector also includes 114 alternative providers (as at November 2017) that do not receive grant funding, but offer courses designated by the Department to allow students to access tuition fee loans. Seven alternative providers have degree-awarding powers, while the rest offer qualifications validated by other organisations such as universities or awarding bodies. Most alternative providers are small compared with universities: around a third have fewer than a hundred students and only 11 have more than a thousand.

1.8 Finally, there are around 240 further education or sixth form colleges providing higher education. Some colleges receive funding directly, while others deliver higher education through a subcontractual arrangement with another provider. Most higher education students at colleges are registered on non-degree courses such as foundation degrees or higher national diplomas.

1.9 Higher education providers also earn income from sources other than undergraduate higher education. These can include postgraduate teaching, research, other forms of education and training, and commercial activities. In total, the higher education sector is a substantial part of the UK economy, contributing an estimated £40 billion a year.

Government reforms and objectives

1.10 The Higher Education and Research Act 2017 introduced further market reforms.[2] It establishes a new regulator, the Office for Students (OfS), with a remit that includes a focus on competition, student choice and outcomes. The OfS will take a more risk-based approach to monitoring provider performance, and its new regulatory framework is intended to promote increased choice and diversity. Further changes aim to support a well-functioning market by making it quicker and simpler for new providers to enter the market, with an expectation that greater competition may mean some providers exit. Finally, the reforms require providers to publish plans to protect students in the event of the course or provider closing.

1.11 In introducing these reforms, the Department set objectives to ensure that everyone with the potential to succeed, irrespective of background, can: access relevant information to make good choices; choose from a wide-range of high-quality universities; and benefit from excellent teaching that helps prepare them for the future. The government's January 2017 industrial strategy green paper also set actions relevant to the sector to address skills shortages in the economy, provide higher quality careers information and advice, and test new approaches to lifelong learning.[3]

2 *Higher Education and Research Act 2017* (c. 29).
3 HM Government, *Building our Industrial Strategy,* green paper, January 2017.

Scope of this report

1.12 Our past work on delivering public services through markets has identified that government often needs to intervene to correct market failures. For example, public service users often need significant support to make good choices, such as from GPs or care workers. Higher education has a number of features that make it a particularly complex market. For example, it is inherently difficult to choose a course before experiencing it; most students only attend higher education once and cannot learn from experience; and outcomes are uncertain and depend on the ability and commitment of each student as well as the quality of the provider.

1.13 This report examines the extent to which market dynamics in undergraduate higher education support government's objectives, and whether the Department intervenes effectively to correct market failures. Our assessment of value for money rests on the following key factors:

- the extent to which prospective students are able to make informed choices on whether to enter higher education, what and where to study, and understand the long-term implications of taking on debt (Part Two);
- whether prospective students from all backgrounds can access higher education (Part Two);
- whether student choice and provider competition is driving higher teaching quality and efficient course pricing (Part Three); and
- the extent to which higher education is delivering government's objectives related to skills needs in the economy (Part Three).

1.14 The Department began consulting on a new regulatory framework for higher education in October 2017. The detailed proposals in the consultation focus on the challenge of improving student choice in the market, by enhancing the information available and promoting good student outcomes, and seek to address a number of the areas covered in this report. Our findings are presented in this context.

Part Two

Supporting effective student choice and access to higher education

2.1 The government ended control of student numbers in 2015, with the aim of increasing higher education participation and ensuring that any individual with the grades required could participate. The proportion of 18-year-olds in England entering higher education aged 18 or 19 in 2016 was 43%, the highest on record.

2.2 Our past work has found that individuals often need significant support to make good choices when accessing public service markets, either due to the complexity of the market or because of the vulnerability of the user. The decision on whether or not to participate in higher education, and the subsequent choice of course and provider, is made at a young age (typically 16 to 17 years old) and can have long-lasting impacts on future employment and earnings outcomes. It also requires a potentially substantial long-term financial commitment in the form of student loan repayments.

2.3 This part considers:

- the complex nature of higher education and the potential impacts of making good or bad decisions;
- what the Department for Education (the Department) is doing to provide information, advice, and support to help prospective students make good decisions; and
- trends in access and participation between different higher education providers and groups of students.

Student choice

2.4 In any market, consumers or service users need accessible, relevant, comparable and accurate information to help them choose the most appropriate service, at the most competitive price. Where services or markets are especially complex, consumers often need additional support and protection to make good choices. Active and engaged consumers stimulate providers to compete for their custom, and help to secure value for money.

2.5 The higher education market is complex and has a number of features that make it particularly difficult for prospective students to make good choices. In particular:

- higher education is not a discrete market, but part of a wider tertiary education system that includes further education and apprenticeships;
- there is a wide range of choice, and what might suit one person may not be suitable for another;
- it is inherently difficult to choose a course before experiencing it;
- most students only attend higher education once and are not in a position to learn from previous experience;
- the true value of a qualification may only become apparent after some time; and
- outcomes depend on the ability and commitment of each student as well as the quality of the provider.

2.6 Choices in higher education have a significant bearing on outcomes, with bad decisions potentially leading to poor financial outcomes. Graduate outcomes vary widely by subject, provider and family background, as well as other factors such as prior attainment and local labour markets. The difference in median earnings between subjects 10 years after graduation is estimated to be up to £24,000, and between providers up to £13,000.[4] While on average graduates earned 42% more than non-graduates in 2016, graduate earnings from some providers and subjects are lower than for non-graduates who also have not incurred the liability of repaying a student loan.

2.7 Taking out a student loan for higher education also represents a potentially significant financial commitment. The average student debt, for a three-year course, is £50,000 on completion. The Department estimates that, on average, borrowers will repay around £30,000 in current prices (the rest paid by government from general taxation), based on estimated future graduate earnings. This is one of the largest financial commitments most students will make, likely to be second in scale only to mortgages which average £139,000 in the UK. Unlike traditional debt, however, student loans have certain statutory protections, including the fact that repayments are based on earnings, and that any liability is written off after a set amount of time, regardless of how much has actually been paid back.

4 Institute for Fiscal Studies, *How English domiciled graduate earnings vary with gender, institution attended, subject and socio-economic background*, April 2016.

2.8 The complexity, uncertainty over outcomes, and financial commitment mean that the overall decision to embark upon higher education, including what and where to study, has features in common with some complex financial services. The Money Advice Service has objectives to enhance the public's ability to manage their own financial affairs and understanding of financial matters, and avoid making poor choices. The Financial Conduct Authority (FCA), which regulates financial services firms, considers low literacy, numeracy and financial capability to be risk factors for vulnerability.[5] Research in 2016 found that 58% of 15- to 18-year-olds, the typical age at which decisions on higher education are made, had not received any form of financial education that would improve their financial capability and help protect them from making poor choices.[6]

2.9 Where financial products are complex and retail consumers may be vulnerable to making poor choices, the FCA expects financial services firms it regulates to disclose clearly the risks of such products to potential customers, to minimise the risk of mis-selling or sale of unsuitable products. The FCA requires firms and financial advisers to pay due regard to the interests of customers and treat them fairly, supported by six high-level outcomes that focus on making good choices (**Figure 3**). It has powers to take action against firms it judges not to be following the FCA's rules and principles, including levying fines or removing their authorisation to sell financial products. The FCA has also focused on highlighting the needs of the most vulnerable and least resilient groups of consumers.[7]

Figure 3
Consumer protection in financial services

The Financial Conduct Authority has published six high-level outcomes that firms strive to achieve to ensure fair treatment of customers

Outcome 1	Consumers can be confident they are dealing with firms where the fair treatment of customers is central to the corporate culture.
Outcome 2	Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.
Outcome 3	Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
Outcome 4	Where consumers receive advice, the advice is suitable and takes account of their circumstances.
Outcome 5	Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.
Outcome 6	Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

Source: Financial Conduct Authority

5 Financial Conduct Authority, *Occasional Paper No.8: Consumer Vulnerability*, February 2015.
6 The London Institute of Banking & Finance, *Young Persons' Money Index 2016*, December 2016.
7 Financial Conduct Authority, *FCA Mission: Our Future Approach to Consumers*, November 2017.

2.10 There are limited comparable disclosure requirements for higher education providers, despite strong financial incentives to seek to attract as many students as possible. Consumer law covers higher education and is enforced by the Competition and Markets Authority, which issued specific guidance in 2015. Higher education providers must therefore accurately describe courses and not make misleading claims. However, requirements for providers to ensure that prospective students understand their prospects, alternative options and the financial commitment that comes with a student loan are limited. The Department is consulting on a new outcomes-based regulatory framework for higher education, as part of which it has sought to learn from other regulators. The framework will require providers to publish certain information, for example on applications, offers, acceptances and graduate outcomes by gender, ethnicity and socio-economic status. However, the Department does not propose to require providers to disclose this type of information to prospective students directly.

Information to make choices

2.11 The Higher Education Funding Council for England (HEFCE) found in 2015 that prospective students' main sources of information are universities' websites and the Universities and Colleges Admissions Service (UCAS) website. We found that providers' websites vary widely in content and format. They normally offer lots of information, but not in a comparable way, and data on outcomes and prospects are often either hidden or missing entirely. The UCAS website, meanwhile, provides standardised basic data on each course's duration, location, tuition fees, entry requirements and whether it is full- or part-time.

2.12 The Department and its partner organisations have worked to improve key comparative data available to help decision-making. HEFCE has refined the official Unistats website, which covers all UK higher education providers, to provide data such as student satisfaction scores, course costs, and employment and earnings outcomes. HEFCE's 2015 review found that 97% of Unistats users found it somewhat or very useful. However, use of Unistats is low, with only 20% of prospective students using it, dropping to only 2% of prospective part-time students. The Department plans further improvements to the information available for students, but it remains to be seen to what extent this information will be used.

Careers advice

2.13 Stakeholders we interviewed consistently felt that choices made from age 13 onwards have a strong bearing on the eventual career options available later on. The Department has also stated that independent, face-to-face careers advice to provide information, nurture students' ambitions and provide positive role models is vital.

2.14 We found that many school pupils do not receive careers advice, either at the right time or at all. Our analysis of published survey data from 2013 found that only 60% of 13- to 14-year-olds had any access to an external careers adviser at school. The Education and Business, Innovation and Skills select committees jointly reported in 2016 that careers education, advice and guidance in English schools is patchy and often inadequate.

2.15 External careers advice does not necessarily reach those who need it most, and the Department does not have an overarching strategy in this area. The Department acknowledges that careers advice is particularly valuable for children from disadvantaged backgrounds, those who are at risk of disengaging, and those who have disabilities or special educational needs. We found that pupils who already discuss their future with teachers and parents are 40% more likely to also have access to an external careers adviser than those who do not.

Access to higher education

Widening participation

2.16 The Department has objectives to ensure equal access to higher education, regardless of an individual's background. Traditional market incentives usually mean that providers prioritise certain consumer or user groups, particularly if the provider is under financial pressures. The Department attempts to mitigate such incentives with a number of measures. For example, providers charging maximum fees must spend a proportion of these fees on strategies to improve participation and outcomes for under-represented groups (such as offering bursaries for poorer students), and to report annually on progress.

2.17 The Department has increased participation among those from disadvantaged backgrounds, but a large socio-economic gap remains. The percentage of 18-year-olds entering higher education aged 18 or 19 from the lowest-participation areas of the country (which correlates closely to lower socio-economic status) increased to 26% in 2016, up from 21% in 2011. This compares with 59% from the highest participation areas, a gap of 33 percentage points.

2.18 The socio-economic gap in higher education choices is mostly explained by differences in how well students did at school or college. Research has found that achievement at age 18 explains 90% of the socio-economic gap in participation, both in higher education generally and in high status institutions.[8] The Department is therefore heavily dependent on the school system to achieve its participation objectives in higher education. The gap also reflects other factors, including financial constraints, institutional barriers (such as admissions processes) and differences in motivation that may stem from fewer suitable learning opportunities.

Trends in applications and acceptances

2.19 Since the increase in tuition fees in 2012, and removal of student number caps in 2015, applications have shifted towards providers with stronger reputations. Overall full-time enrolments to English higher education providers have remained stable (**Figure 4** overleaf). However, we analysed application data between 2011 and 2016 against league table rankings, as a proxy for a provider's overall reputation.[9] Applications increased by more than 10% among higher-ranked universities over the period. As overall student numbers have not increased, this has meant substantial drops in applications to lower-ranked providers (**Figure 5** on page 25).

2.20 Increased participation among students from disadvantaged backgrounds is weighted towards lower-ranked providers, compared with those from more advantaged backgrounds. Fewer applications puts pressure on institutions to compensate by recruiting more students from backgrounds with low participation in higher education. Higher status institutions also tend to have higher entry requirements, meaning fewer choices for people with lower prior attainment. We found that the lowest-ranked universities saw an 18% increase in the share of students from low participation areas between 2011 and 2016, compared with 9% in the highest-ranked (**Figure 6** on page 26).

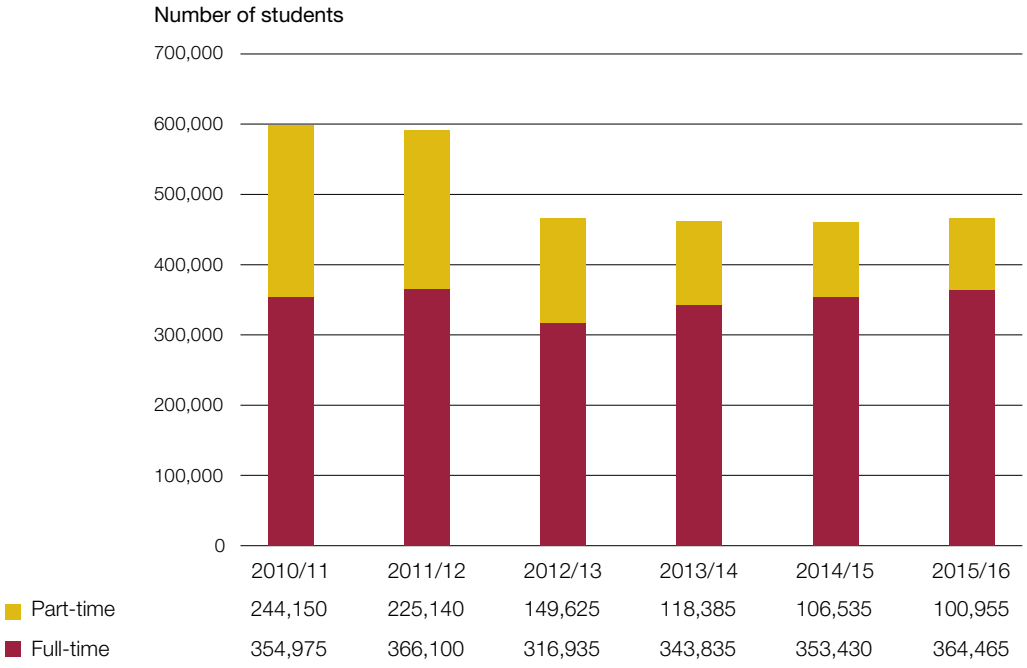
8 H Chowdry, C Crawford, L Dearden, A Goodman and A Vignoles, 'Widening participation in higher education: analysis using linked administrative data', *Journal of the Royal Statistical Society*, vol. 176 issue 2, 2012, pp. 431–457.

9 League tables vary but normally include measures such as entry requirements, student satisfaction, research quality, capital investment and graduate outcomes.

Figure 4

UK undergraduate first-year enrolments to English higher education providers

Full-time undergraduate study has remained stable since 2010 as part-time study has declined



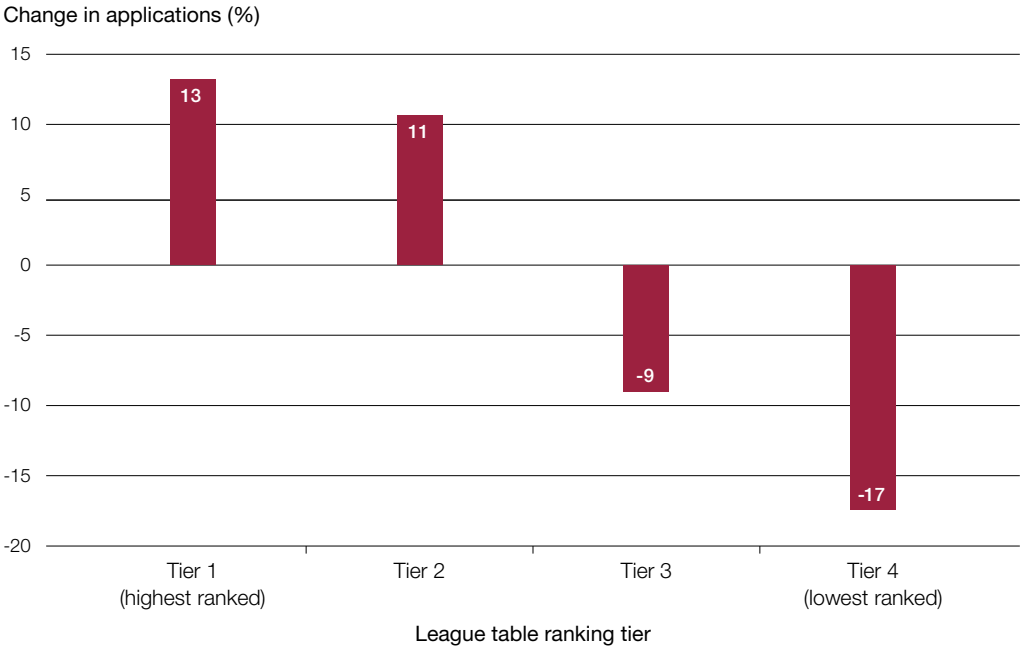
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Part-time	244,150	225,140	149,625	118,385	106,535	100,955
Full-time	354,975	366,100	316,935	343,835	353,430	364,465

Source: Higher Education Statistics Agency data

Figure 5

Change in applications to English universities and colleges, 2011–2016 (%)

Students are increasingly applying to providers with stronger reputations



Note

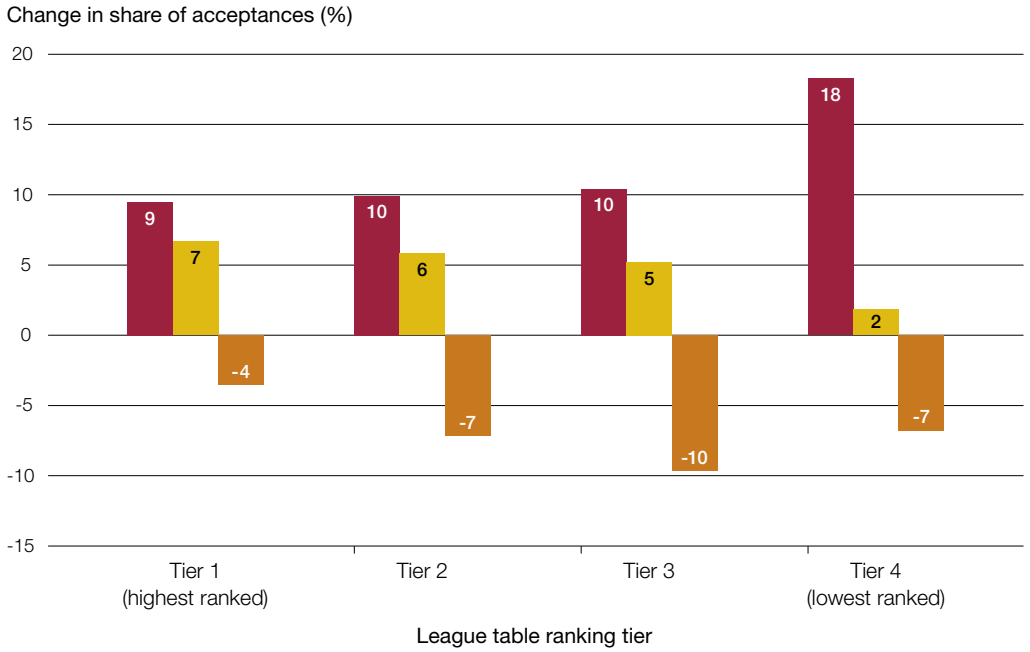
1 The data cover main scheme undergraduate applications to English universities and colleges, with tiers based on league table rankings. Full data on applications to alternative providers are not available and are therefore not included.

Source: National Audit Office analysis of UCAS and Complete University Guide data

Figure 6

Change in share of acceptances at English universities, 2011–2016 (%)

The share of students from low participation areas has increased, mainly in lower-ranked providers



Notes

1 The data cover accepted students at English universities. Full data on students at colleges and alternative providers are not available and therefore not included.

2 Numbers do not exactly align to the bars due to rounding.

Source: National Audit Office analysis of UCAS and Complete University Guide data

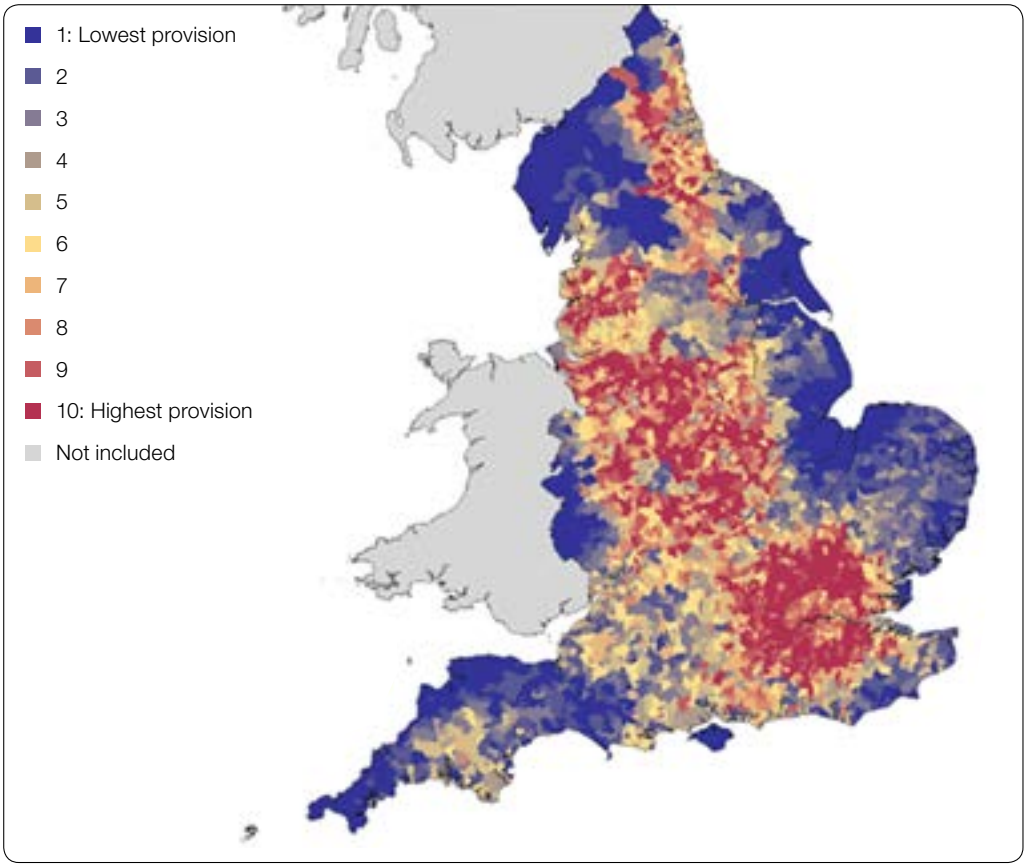
Risk of a two-tier system

2.21 If recent trends in response to changes in the market continue, a two-tier system may develop between providers that can compete for the most high-achieving candidates and those that struggle to compete at all. There is a risk that, as a result, increased participation among disadvantaged students will not lead to better outcomes. Graduates from poorer backgrounds already earn, on average, up to 10% less than peers who studied the same subject at comparable institutions. Providers reported to us how they are engaging with communities, locally and nationally, to raise participation among disadvantaged groups. But it is too early to tell whether these activities will offset recent trends.

2.22 There is also a risk of reduced choice for people unable to move away to study, if financial pressures cause providers to close courses or exit the market. It is estimated, for example, that around a fifth of students live at their family home while attending higher education. Students from disadvantaged backgrounds are less geographically mobile and more likely to live in their family home while studying.[10] There are already areas of little or no higher education provision in England, and closures may further restrict options for certain students (**Figure 7**).

Figure 7
English higher education provision

Levels of provision of higher education in England vary substantially



Note

1 The calculations are adjusted for the eligible population of young persons in each area. The map is based on analysis by the Higher Education Funding Council for England. We have not audited the underlying methodology and analysis.

Source: Higher Education Funding Council for England

10 S Gibbons and A Vignoles, 'Geography, choice and participation in higher education in England', *Regional Science and Urban Economics*, vol. 42 issue 1, 2013, pp. 98–113

Part Three

Provider incentives to improve quality and outcomes

3.1 Competition in a market should incentivise providers to offer the services or goods that consumers want at the most efficient price. The complicated nature of the higher education market creates potential barriers to this dynamic, particularly as what individual students want may not always align well with government's objectives.

3.2 This part examines the extent to which student choice and behaviour are leading to effective competition between providers, improvements in quality, efficient pricing and a subject mix that supports government's objectives relating to skills needs in the economy. It considers evidence on:

- the incentives for providers to compete for students on quality and price;
- the extent to which students can ensure actions affect quality once they are enrolled on a course;
- the impact of market entry and exit; and
- the incentives for providers to meet government's objectives regarding subject mix and lifelong learning.

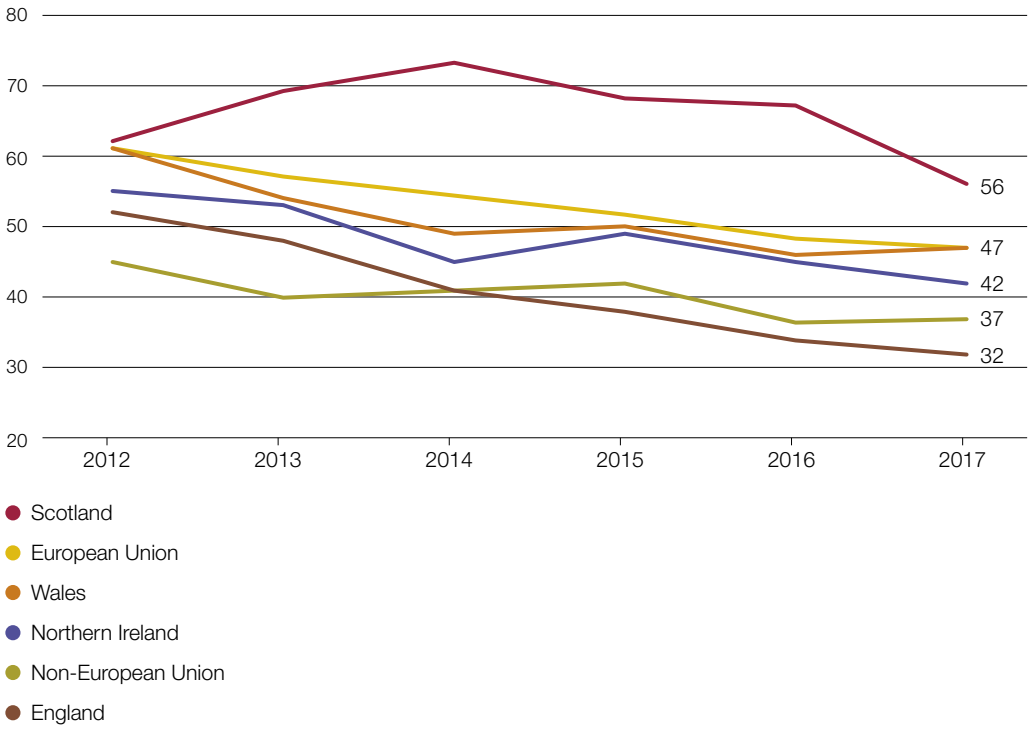
3.3 The proportion of students from England who consider that their course offers value for money fell from 50% in 2012 to 32% in 2017 (**Figure 8**). This is the lowest proportion and steepest drop in the UK, and compares with 37% of students who consider their course poor value. The main factors in perceptions of value for money were whether students' experiences matched their expectations, whether teaching staff were helpful and supportive, the ability of staff to explain things, and the variety of timetabled sessions. Most providers and other stakeholders we interviewed considered that these results were likely to be affected by the higher contribution students make towards course costs. Ensuring value for money for students will be one of the four primary objectives of the new Office for Students (OfS).

Competing for students

3.4 In a traditional market for goods or services, there is a relationship between price and quality, and providers compete on either or both. This varies by sector but can, for example, include standard products, basic versions at lower prices and luxury, high-quality versions that cost more.

Figure 8
Students' perceptions of value for money

Students' perceptions of value for money have declined since 2012



Source: Higher Education Policy Institute, Student Academic Experience Survey 2017

Price

3.5 There is no meaningful price competition in the higher education sector. When the government introduced funding changes in 2011, increasing tuition fees to between £6,000 and £9,000, it expected price competition to drive fees to an average of around £7,500. However, student behaviour has shown that higher education is similar to products where consumers equate price with quality (known as Veblen goods). Providers are incentivised to charge the maximum, even for courses that cost less, because not to do so could suggest poor quality and reduce demand instead of increase it. Any surplus made on individual courses also allows providers to invest in the student experience or cross-subsidise more expensive courses that fees do not cover. The Institute for Fiscal Studies found that, in 2016, 87 of the top 90 English universities charged the maximum permissible fee of £9,000 a year for all courses.[11]

11 Institute for Fiscal Studies, *Higher Education funding in England: past, present and options for the future*, July 2017.

3.6 The incentives for students to put downward pressure on fees are also weak, compared with consumers in traditional markets. The Institute for Fiscal Studies' analysis indicates that more than three-quarters of students will never have to pay back their full loan and debt interest. This means that, for most students, a difference of £1,000 a year in tuition fees will make little or no difference to their lifetime financial situation. Unlike most traditional markets, higher education providers choose their students through applications and interviews. Higher education is a significant investment of time and important to many students' aspirations, so few are attracted by lower prices that might signal poorer quality.

3.7 Despite the lack of meaningful price competition overall, some providers use differentiated pricing to attract specific types of student. For example, providers may offer lower fees for students who achieve certain grades at A-level, to attract more capable students. Many providers offer cash bursaries or scholarships to students from lower income backgrounds. Some providers also reduce fees or increase bursaries in August each year, as part of the clearing process, in an effort to fill courses.

Quality

3.8 In principle, university rankings and league tables encourage providers to offer high quality education to attract students, but in practice these incentives appear weak. Quality in higher education is difficult to discern for prospective students (Part Two). Each student will choose a provider for different reasons, often including considerations such as location or sports and social opportunities. We analysed enrolment data against university rankings, from a well-known league table, from 2010 to 2015. Rankings are highly static, with an average change of only five places over the period. An increase of five ranking places resulted in just 57 more students a year, translating into additional fee income of 0.25% on average.[12]

3.9 In practice, providers compete in a number of ways that do not necessarily relate directly to educational quality. Most providers we spoke to were focusing increasingly on marketing and advertising since student number caps were removed. For example, one provider had tripled the size of its marketing team, while another was planning a £400,000 summer advertising campaign in the run-up to A-level results. Our interviewees were aware of some providers offering gifts such as football season tickets or iPads to entice students, though none did so themselves. Similarly, providers are increasingly willing to make unconditional offers, particularly to high-achieving students, to discourage them from looking elsewhere.

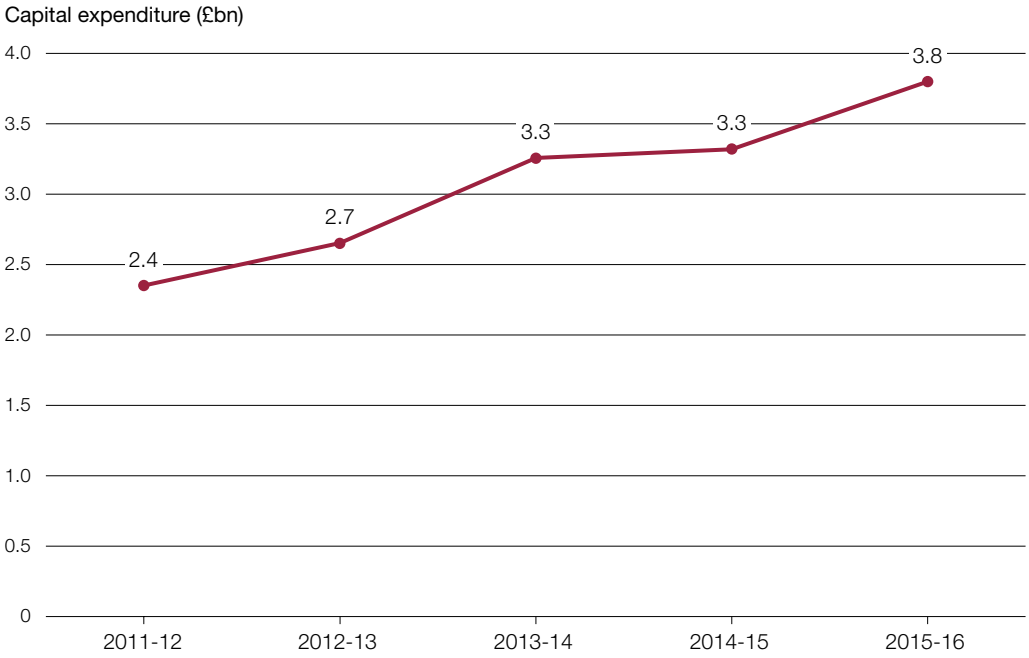
3.10 Providers are also seeking to attract students by investing more in facilities. Between 2011/12 and 2015/16, capital investment in English universities increased from £2.35 billion to £3.80 billion (**Figure 9**). Capital investment can mean better educational facilities, such as academic buildings and libraries, or better student accommodation.

12 Higher rankings can, however, potentially increase income from other sources, such as donations or research funding.

Figure 9

Capital investment in English higher education providers

Capital investment in the sector has increased since 2011



Note

1 Full data for alternative providers are not available and are therefore not included.

Source: Higher Education Statistics Agency data

3.11 However, there is a risk that increased capital spend represents a zero-sum game, with little overall benefit to educational quality. Many providers are striving to provide facilities equal to, or better than, their competitors, while future student numbers are highly uncertain. The Higher Education Funding Council for England (HEFCE) reported in November 2016 that the sector was forecasting a 12% growth in full-time home and EU undergraduate recruitment up to 2018-19. Across the sector as a whole this is unlikely to be sustainable, due to declining numbers of 18-year-olds in England and more alternatives to undergraduate courses (such as higher apprenticeships).

3.12 The Department for Education (the Department) has introduced its Teaching Excellence and Student Outcomes Framework (TEF) to incentivise teaching quality, though it is too early to determine its impact. The Department published the first results in June 2017, based on measures including dropout rates, student satisfaction scores and graduate outcomes. Many stakeholders expressed concern about whether ratings meaningfully reflect teaching quality. However, most felt that the framework encourages providers to focus more on educational quality. The Department is refining its approach to the TEF, and will base results more heavily on employment and earnings outcomes data in future.

3.13 The Department also intends for the new Office for Students (OfS) to be a market regulator that will help to drive competition in the interest of students. It proposes to promote competition by improving information and transparency regarding providers and courses, and making it easier for providers to enter and exit the market. Unlike most market regulators, however, the OfS will not have formal competition enforcement powers, and will therefore need to draw on the expertise of the Competition and Markets Authority.

Students' ability to drive quality once on a course

Complaints and feedback

3.14 In any sector, an effective complaints process is essential to enable service users to bring their dissatisfaction to the attention of the provider and prompt improvement. Providers can use information from complaints alongside other feedback to identify and address areas requiring improvement, to avoid reputational damage or, in some cases, penalties.

3.15 The higher education ombudsman, the Office of the Independent Adjudicator for Higher Education (OIA), has seen a drop in complaints since a peak in 2014. The OIA investigates complaints that providers have been unable to resolve internally, excluding matters of academic judgement which are largely outside of its role. Complaints referred to the OIA peaked at 1,877 in 2014 then dropped to 1,411 in 2016, a 25% decrease (**Figure 10**). The OIA attributes this to providers dealing better with complaints and feedback internally.

3.16 Providers we interviewed reported that students expect more from them, and offer more challenge, than ever before. Many have therefore focused more on feedback and complaints. The OIA's guidance on complaints processes, and the Competition and Markets Authority's guidance on how to comply with consumer protection law, have provided useful advice for providers wishing to make improvements. Providers also recognised the important role that student unions often play in assisting students with complaints and gathering general feedback. Union representatives we spoke to agreed that processes have improved, but were concerned that they are not consistently effective and do not always find the right balance between efficiency and fairness.

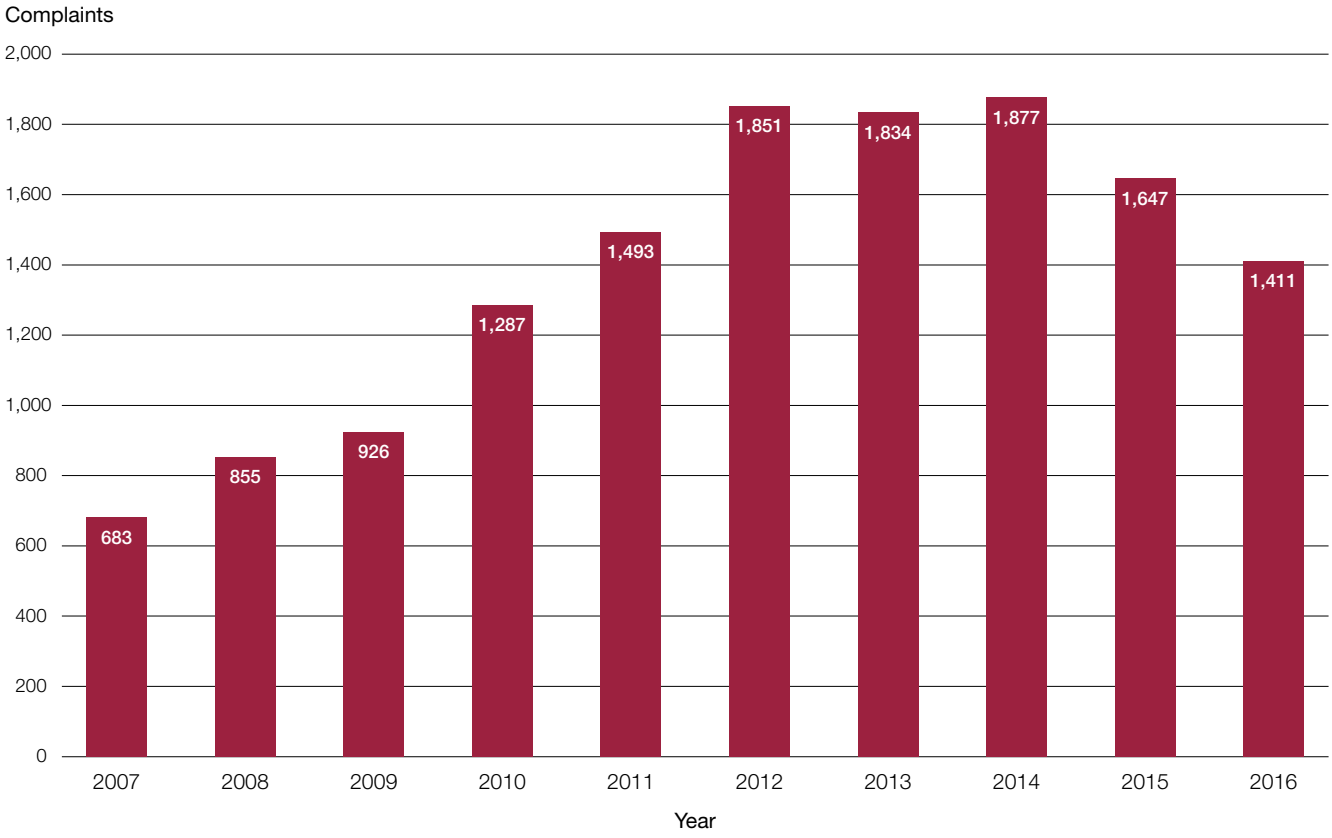
Switching

3.17 In most sectors, where consumers or service users are dissatisfied with their provider they can switch to a different provider. Switching can provide a wake-up call for providers that are performing poorly, and incentivise them to improve.

Figure 10

Complaints to the higher education ombudsman about providers in England

Complaints referred to the ombudsman peaked in 2014 and have reduced since



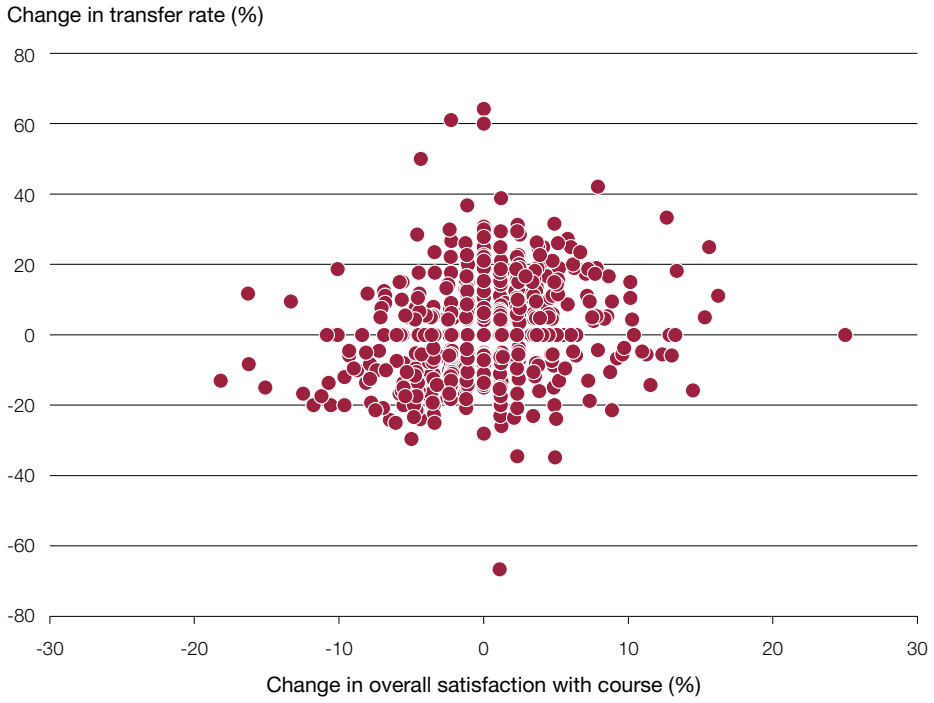
Source: Office of the Independent Adjudicator for Higher Education data

3.18 Switching rates in higher education appear low, and unrelated to changes in student satisfaction. Overall, 2% of students transfer provider each year. Our analysis of provider data from 2011 to 2016 found no statistical correlation between course satisfaction and switching rates (**Figure 11** overleaf). It is difficult to make direct comparisons with other sectors due to the different nature of the products and services. Sectors such as current bank accounts and energy have higher switching rates (4% and 16% a year respectively), but neither is directly comparable. Current data on student transfers may also be incomplete. The OfS will have a duty to monitor and report on the availability and use of transfer arrangements.

Figure 11

Annual changes in transfers and course satisfaction between 2011 to 2016

Switching rates in higher education are unaffected by changes in student satisfaction



Note

1 Each dot represents a higher education provider in a given year. We estimated a panel data model and did not a find a statistically significant relationship between course satisfaction and switching rates.

Source: National Audit Office analysis of Higher Education Statistics Agency data

3.19 Low transfer rates are affected by inherent barriers to switching between providers. These are often logistical or emotional, such as uprooting one's life and potentially moving to another part of the country. Providers in London tend to have more switching due to the number of other providers nearby. Six of the eight providers with switching rates over 5% are in London. The Department's 2016 call for evidence on switching found that 23% of students who had changed provider found the process difficult or very difficult. It is more common for students who do not wish to continue their course to switch to another course with the same provider, or simply drop out altogether.

3.20 There can also be academic barriers, due to providers' academic autonomy and the lack of an effective system of credit transfers. There are higher education systems overseas where credit transfer mechanisms are more developed. For example, some Canadian provinces provide a formal system for universities to recognise each other's credits, making it easier for students to transfer between providers. The Department proposes to improve transparency regarding switching by requiring providers to publish their transfer arrangements.

Market entry and exit

3.21 In a traditional market, entry and exit of providers can help strengthen the quality of the sector as a whole. New providers can compete with those that are more established, and potentially introduce innovative new approaches. As consumers choose providers that offer the best service or deal, those that do not keep up lose customers and ultimately fail, leaving a stronger sector overall.

New providers

3.22 Since 2011, the government has sought to encourage diversity and competition in the sector, including by simplifying market entry. The sector has typically had high barriers to entry, including established providers with strong brands and requirements for new providers to offer courses validated by other organisations including competitors. From 2012/13, students at alternative providers (which receive no direct public funding) were able to access tuition fee loans of £6,000 compared with £3,375 previously. The Higher Education and Research Act 2017 simplifies entry further by allowing any type of provider to access full funding levels if it meets the full regulatory requirements, including on quality and standards. It also allows new providers to award their own degrees on a probationary basis, subject to quality checks and additional monitoring, without having to first demonstrate a lengthy track record.

3.23 While these measures should create fairer competition in the market, some also present potential risks to quality. We reported on gaps in oversight of the rapid growth among alternative providers in December 2014, with an update on progress in October 2017.[13,14] It is unclear what value degrees will have where providers with probationary powers are subsequently not awarded full degree-awarding powers.

Market exit

3.24 The Department expects increased competition to lead to more market exit. In 2017, HEFCE reported that the sector's 2015-16 financial results showed a sound position overall, but with increasingly significant variation between institutions and financial strength concentrated in a small number of providers. In principle, market exit could involve whole institutional failure or closure, but it is more likely to involve providers closing courses, departments or campuses more frequently to stay financially viable. In most cases to date, providers have closed courses to new entrants but continued to teach out existing students. Providers we interviewed recognised the uncertainty and anxiety that closure can create among students and staff.

13 Comptroller and Auditor General, *Investigation into financial support for students at alternative higher education providers*, Session 2014-15, HC 861, National Audit Office, December 2014.
14 Comptroller and Auditor General, *Follow-up on alternative higher education providers*, Session 2017–2019, HC 411, National Audit Office, October 2017.

3.25 To date, no major provider has fully exited the market, but this may become more common. Provider failure in other public service markets, such as the exit of Southern Cross – the largest provider of care home beds at the time from the UK social care sector in 2011 – demonstrates the disruption to public services that can be caused when large providers exit the market in an unplanned manner. In Australia and the US, large tertiary education providers have failed or been forced to close by the authorities. These have had serious educational and financial consequences for students, who have not always found alternative places to study.

3.26 The Department has not yet developed plans to deal with higher levels of market exit, or set out how it will improve quality by driving out weaker providers. There is not yet evidence that providers that struggle financially will be of lower quality than those doing well. The Department's consultation on a new regulatory framework states that exit is a crucial part of a competitive, well-functioning market, and that the government will not seek to prevent it and undermine institutional autonomy. In practice, decisions on whether to intervene are likely to depend on whether there remains sufficient provision in a region, or of priority subjects, though these criteria have not yet been established. The consultation makes clear that shortages of provision would be assessed on a case-by-case basis, in line with sector-wide goals or government policy objectives.

3.27 The Department also has plans to improve protection for students in cases of course or provider closure, though it is too early to assess whether these will be sufficient. Its proposed new regulatory framework will require providers to have a student protection plan approved by the OfS, to ensure student interests are protected in the event of closure. The Department also expects the OfS to take a risk-based approach to regulation, monitoring developments and identifying specific threats to providers' sustainability, and reviewing the student protection plans of providers at risk. This overall approach to monitoring individual institutions is in line with good practice, but may not be enough sector-wide if a number of risks materialise at once.

Market incentives to meet skills needs

Subject mix

3.28 Changes in the higher education market since 2012, including increasing maximum tuition fees to £9,000, affect the direct financial incentives for providers to offer different subjects. To remain financially viable providers need to ensure they are covering their costs. HEFCE's 2012 analysis of average course costs before the funding changes showed significant variation, with some subjects costing under £7,000 on average (**Figure 12**).

Figure 12
Estimated average course costs in 2010

Average course costs vary substantially by subject area

Price group	Subject	Average annual cost per student[1] (£)
A/B	Veterinary science	19,670
A/B	Clinical dentistry	16,460
A/B	Clinical medicine[2]	14,940
B	Physics	10,620
B	General engineering	10,010
B	Biosciences	9,190
B	Civil engineering	8,910
C1	IT and software engineering	8,560
C1	Design and creative arts	8,380
C2	Geography	7,380
C2	Modern languages	7,250
C2	Mathematics	7,060
D	Business and management studies	6,720
D	Humanities	6,400
D	Social studies	6,280

Notes

1 Based on combined cost data from 2007/08 to 2009/10.

2 Medicine course costs only include those funded by the Department for Education, and not the funding that is provided by the Department of Health.

Source: Higher Education Funding Council for England analysis produced in 2012

3.29 The Department provides grant funding for high-cost subjects. Some of these high-cost subjects it considers strategically important, such as sciences and engineering. The government's 2017 industrial strategy green paper highlighted skills shortages in sectors that depend on science, technology, engineering and mathematics.[15] Many subjects in these areas are expensive to run, for example due to high facility or equipment costs. The Department provides additional funding that includes teaching grants for high-cost courses (£652 million in 2017-18) and capital investment for projects to support teaching in science-related subjects (£200 million in 2015-16).

3.30 Providers reported that teaching grants for high-cost courses do not cover additional costs, creating incentives to prioritise lower-cost subjects. We found examples of providers opening or expanding cheaper classroom-based courses to strengthen their overall financial position. Our analysis of applications and acceptances between 2011 and 2016 also found that the cheaper a course is to run, the more likely a provider is to maintain offer numbers in the face of declining applications, or to expand student numbers in response to more applications.

3.31 Pressure to prioritise lower-cost courses is often balanced by other incentives, for example to maintain a provider's reputation or graduate outcomes. As such, most providers we spoke to sought to maintain expensive but important subjects, and covered additional costs with cross-subsidies from other areas including fees from international students, commercial income or, in some cases, lower-cost subjects.

3.32 Incentives to offer courses also rely more heavily on student demand, now that most funding directly follows students. The Department and its partner organisations, such as HEFCE, have increasingly sought to promote science-related subjects to young people. The overall proportion of students taking related subjects has increased from 42% to 46% since 2011, but there remain significant gaps in some key subject areas. Our analysis of university enrolments between 2011/12 and 2015/16 found that engineering and technology enrolments, an area of skills shortage particularly highlighted by government, saw only a 1% increase, while student numbers fell in computer science, mathematics and physical sciences.

Lifelong learning

3.33 Lifelong learning (also called career learning) refers to formal and informal learning throughout people's lives, which often involves part-time study or short courses. The government's 2017 industrial strategy green paper set a specific action to test new approaches to lifelong learning.[16]

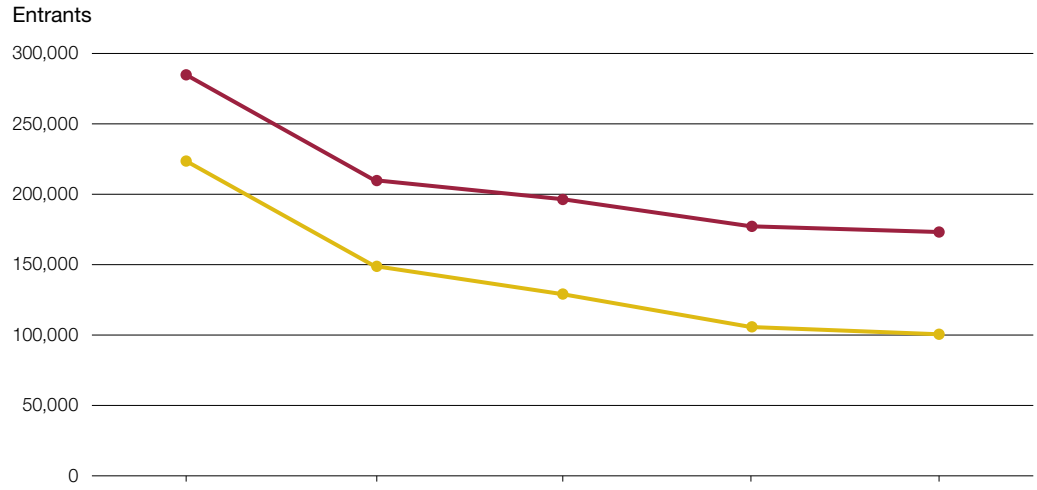
3.34 Lifelong learning in higher education institutions has fallen significantly since 2011, with a 39% drop in mature students (those aged 21 and over) and 55% drop in part-time entrants (**Figure 13**). There has also been a 44% fall in the number of non-degree undergraduate qualifications, such as foundation degrees and Higher National Diplomas and Certificates. These drops will be partly offset by the growth in alternative providers, which full data are not available for but tend to have more mature students and those studying non-degree undergraduate qualifications.

15 HM Government, *Building our Industrial Strategy,* green paper, January 2017.
16 See footnote 15.

Figure 13

Number of mature and part-time undergraduate entrants in England

Lifelong learning in the higher education sector has fallen significantly since 2011



	2011/12	2012/13	2013/14	2014/15	2015/16
Mature (full and part-time)	284,925	210,130	196,575	177,295	173,225
Part-time	223,495	149,050	129,120	105,715	100,500

Notes

1 Data for alternative providers are not available for the full period, and are therefore not included.

2 Data include all undergraduate qualifications.

Source: National Audit Office analysis of Higher Education Statistics Agency data

3.35 We found a range of possible factors contributing to the fall in mature and part-time students. A substantial portion of providers' expenditure is fixed (for example, building and equipment costs) often makes part-time study more costly, particularly for those that mainly offer full-time study. Part-time and mature students also typically have higher drop-out rates. Increased tuition fees for part-time study may also put many students off this route, especially if they have family or childcare obligations. It may also have led to a decline in employers sponsoring studies for their employees.

3.36 The Department has introduced, or plans to introduce, a number of measures that may help to address the drop in lifelong learning in higher education. Part-time degree students will be able to access maintenance loans for living costs; providers will face fewer barriers to offering accelerated degrees over two years; and the Department aims for apprenticeship reforms to support an expansion of higher and degree apprenticeships. But the Department has not yet set out an overarching strategy for lifelong learning, or what impact it expects these measures to have.

Appendix One

Our audit approach

1 This study examined the extent to which market dynamics in undergraduate higher education support government's objectives, and whether the Department intervenes effectively to correct market failures. It assessed performance to date and considered the potential impacts of planned reforms.

2 We reviewed:

- the extent to which prospective students are able to make informed choices on whether to enter higher education, what and where to study, and if they understand the long-term implications of taking on debt;
- whether prospective students from all backgrounds can access higher education;
- whether student choice and provider competition is driving higher teaching quality and efficient course pricing; and
- the extent to which higher education is delivering government's objectives related to skills needs in the economy.

3 Our audit approach is summarised in **Figure 14**. Our evidence base is described in Appendix Two.

Figure 14
Our audit approach

The objective of government

To ensure that everyone with the potential to succeed, irrespective of background, can: access relevant information to make good choices; choose from a wide-range of high-quality universities; and benefit from excellent teaching that helps prepare them for the future.

How this will be achieved

A high quality competitive higher education market that meets the needs of students, the economy and wider society. Reductions in inequalities in access; more informed choice; and a robust risk-based regulatory regime that protects students.

Our study

We examined whether the Department for Education is maximising the extent to which market dynamics in the higher education sector support government's objectives.

Our evaluative criteria

The extent to which prospective students are able to make informed choices; and whether prospective students from all backgrounds can access higher education.

The extent to which student choice and provider competition is driving higher teaching quality and efficient course pricing, and supporting government's objectives related to skills needs in the economy.

Our evidence (see Appendix Two for details)

- Interviews with providers and sector stakeholders.
- Review of published reports on student choice and access.
- Review of published reports on the graduate wage premium.
- Analysis of the protections in place for students, compared to other complex financial services.
- Analysis of student loan debt.
- Analysis of survey data on access to careers advice in schools.
- Analysis of trends in higher education applications.

- Interviews with providers and sector stakeholders.
- Analysis of the impact of university league table ranking on applications.
- Analysis of capital expenditure trends.
- Analysis of the relationship between course satisfaction and university switching rates.
- Analysis of offer rates and course costs.
- Analysis of trends in subject enrolments and lifelong learning.

Our conclusions

Some aspects of market delivery have brought benefits: there is more choice for more capable candidates, and a higher proportion of students from disadvantaged backgrounds are entering higher education. However, only 32% of students consider their course offers value for money, and competition between providers to drive improvements on price and quality has yet to prove effective. The decisions students make when entering higher education have lifelong implications for their career prospects, earnings and debt. While information available to students to support them in making these decisions has increased, students taking out loans lack the level of consumer protection available for other complex products such as financial services. Furthermore, the taxpayer will bear the cost of student debt written off, but government has limited influence on the overall size and therefore funding for the sector, or the course mix. The Department needs a more comprehensive approach to the oversight of the higher education market, and must use the proposed regulatory reforms to help address the deficiencies identified in this report, if students and the taxpayer are to secure value for money.

Appendix Two

Our evidence base

1 Our independent conclusions on the extent to which market dynamics in the higher education sector support government's objectives around access, choice, quality and skills needs were reached following our analysis of evidence collected between January and July 2017.

2 We used a range of study methods to reach our conclusion on value for money, described below.

3 We carried out case study visits and semi-structured interviews with representatives from 17 **higher education providers** to provide insights into how the higher education market is operating. Providers were sampled to capture diversity of provider size, region and type:

- The Academy of Contemporary Music
- Aston University
- BPP University
- The University of Cambridge
- The University of Chichester
- Coventry University
- University of Derby
- The University of Exeter
- Futureworks
- GSM London
- The University of Kent
- The University of Lincoln
- London Metropolitan University
- Trinity Laban Conservatoire of Music and Dance
- The University of Oxford
- Queen Mary University of London
- The University of Surrey.

4 We conducted semi-structured interviews with policy officials and representatives from **sector regulators** to explore their regulatory roles within the higher education market:

- Higher Education Funding Council for England (HEFCE)
- Office for Fair Access (OFFA)
- Office of the Independent Adjudicator for Students of Higher Education (OIA)
- The Quality Assurance Agency for Higher Education (QAA).

5 We conducted interviews with **sector representative bodies** to capture the perspectives of their members, as well as interviews with **charities and stakeholders** supporting various parts of the sector:

- Association of Colleges (AoC)
- Association of Graduate Recruiters (AGR)
- British Universities Finance Directors Group (BUFDG)
- Guild HE
- Higher Education Policy Institute (HEPI)
- The Higher Education Careers Service Unit (HECSU)
- Independent HE
- Million Plus
- National Union of Students (NUS) and other student union representatives
- SEEC
- The Russell Group
- Uni-Quest Ltd
- University Alliance
- The Universities and Colleges Admissions Service (UCAS)
- Universities UK (UUK)
- Which?

6 We **spoke to expert academics and examined a range of literature** to understand the factors affecting student choice and HE participation; and to explore the skills gaps in the economy and the employment outcomes for graduates.

7 **We analysed data from a range of sources to explore how well the market supports access and informed student choice.** This included analysis of:

- The protections provided to students when making higher education choices and taking out student loans, with comparison to services with similar challenges and complexities such as financial services.
- 'Next Steps' survey data to explore access to careers advice and guidance in schools.
- HE applications and acceptances data to explore trends in HE participation over time and the impacts on students from low participation areas. We used POLAR3 data when defining areas of low, medium or high participation. These data are widely used as a proxy for disadvantage. The data measures the share of eligible young persons in an area who enter higher education when 18 or 19.

8 To explore the extent to which market mechanisms are effective in promoting quality provision, we carried out:

- **Analysis of applications data and university rankings** to explore the market incentives to improve quality.
- **Descriptive analysis of trends in capital expenditure** over time in English higher education institutions.
- **Analysis of the relationship between course satisfaction and university switching rates.**
- **Analysis of trends in applications and acceptances between 2011/12 and 2015/16** to explore the market incentives to expand lower cost courses.
- **Descriptive analysis of trends in subject enrolments between 2011/12 and 2015/16** to explore changes in take-up of science-related courses.
- **Descriptive analysis of trends in mature, part-time and 'other undergraduate' study** to examine how the sector is supporting lifelong learning.

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